TESTIMONY OF

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"THE UNIVERSAL SERVICE FUND: ASSESSING THE RECOMMENDATIONS OF THE FEDERAL-STATE JOINT BOARD"

U.S. SENATE

COMMITTEE ON COMMERCE, SCIENCE & TRANSPORATION

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Mr. Chairman and members of the committee, I am Roger Nishi, Vice President of Industry Relations for Waitsfield and Champlain Valley Telecom headquartered in Waitsfield, Vermont. Also, I serve as Chairman of the Board of the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) and am a member of the National Telecommunications Cooperative Association (NTCA). I am also speaking for the Western Telecommunications Alliance (WTA) and the Independent Telephone and Telecommunications Alliance (ITTA). Thank you for inviting me to testify today on behalf of all of these organizations who are the founding members of the Coalition to Keep America Connected.

Waitsfield and Champlain Valley Telecom is a privately owned, independent company now in its third generation of ownership by the Haskins family. We provide local and long distance telephone service, high-speed Internet service to the Mad River and central Champlain Valley regions and cable television to our customers in the Mad River Valley. The company is proud that it has recently achieved one hundred percent coverage of broadband service to our telephone customers.

All four organizations strongly support the Federal-State Joint Board on Universal Service's (Joint Board) recommendation to immediately impose an interim cap on the high-cost support received by competitive eligible telecommunications carriers (CETCs) and we urge Congress to also support the recommendation. It is important that the Federal Communications Commission (FCC) adopt the recommendation without modification. The recommendation is the most logical and equitable way in which to rein in the rapid growth of the High-Cost universal service program while the FCC and Congress contemplate long-term reforms to sustain the Universal Service Fund (USF).

The adoption by the FCC of an interim cap on only the high-cost support provided to CETCs is equitable. Since 1993, caps have limited the amount of support available to rural incumbent local exchange carriers (ILECs) from the high-cost loop support (HCLS) mechanism, which is the largest of the support mechanisms through which these carriers receive funding. Since July 2001, when these caps were "re-based" by the FCC, rural ILECs have forgone over $2.5 billion in federal high-cost support. My company, Waitsfield and Champlain Valley Telecom, has lost $6.23 million in high-cost loop support in the last six years. The capping mechanism on HCLS has created significant unpredictability for rural ILECs from year to year. This has constrained our ability to make further improvements to our local network. Yet, we have persevered because of our commitment to our community. Our company, like hundreds of rural companies throughout the United States, has always had a "community first" approach to doing business. And this means serving all of our customers rather than looking to serve only the lucrative and easy to serve customers as so many of our competitors do. We must recognize that since CETCs have come into existence, the high-cost loop support they receive has been permitted to grow unfettered as the number of CETCs has grown and as their line counts have grown. It is baseless to assert that an interim cap applied only to support received by CETCs would not be competitively neutral.

In their recommendation, the Joint Board states that the identical support rule is dated and may not be the appropriate approach to calculating support for CETCs. The identical support rule bases the support received by CETCs on the unrelated costs of the rural ILEC providing ubiquitous service throughout the area. For years CETCs – primarily wireless carriers – have reaped windfalls of support through the illogical identical support rule. Moreover, the rules have allowed CETCs, upon designation, to immediately begin receiving the rural ILEC's cost-based per-line support amount for all of their existing customers in the designated territory, whom they were successfully serving without any support. Imposing an interim cap on CETC support is a necessary measure to contain the rapid growth in unjustified distributions to these carriers while Congress and the FCC address long-term policy changes to the USF. We advocate the elimination of the identical support rule and believe that CETCs should be required to demonstrate their own costs in order to potentially qualify for support.

AT&T, the largest wireless carrier in the United States, has submitted a plan for stabilizing the High-Cost program in the short term that proposes much bolder steps for addressing the growth in CETC support than the Joint Board's Recommended Decision. Specifically, AT&T's plan would immediately halt the approval of new CETCs and impose a freeze on the number of lines for which wireless CETCs receive high-cost support. Also, it would reduce by 25 percent the support that wireless CETCs receive through the support mechanisms designed to replace access charges. If the nation's largest wireless carrier is willing to acknowledge the source of the runaway growth in the High-Cost program, and recommend a strong, targeted interim plan to address it, the FCC should be willing to adopt the more modest recommendations of the Joint Board. And this committee should encourage the FCC to support the Joint Board recommendation.

The Joint Board points out that as a result of the rapid and excessive growth in support received by CETCs, the High-Cost program is in serious jeopardy of becoming unsustainable if immediate action is not taken. Support for CETCs has grown from $15 million in 2001 to almost $1 billion in 2006 and based on current estimates, the support received by these carriers will reach at least $1.28 billion in 2007, almost $2 billion in 2008, and $2.5 billion in 2009 if action is not taken to contain it. In addition, the USF contribution factor for second quarter 2007 is 11.7 percent which is the highest it has ever been. The chart attached at the end of this testimony illustrates these points. The Joint Board's recommendation to impose an emergency, interim cap on the support received by CETCs is essential to stabilize the size of the High-Cost program until measures can be adopted that will sustain the program for the long term. Any entity or person who proclaims support for a strong and viable USF in the future should support the Joint Board's recommended interim plan.

The recommended interim cap obviously would not stop funding from continuing to flow to CETCs, nor would it adversely affect wireless service in rural areas. Most importantly, an interim cap on CETCs support would not harm the availability of universal service throughout the country since virtually all Americans have access to service from at least one eligible telecommunications carrier (the ILEC) and, in most cases, more than one.

The organizations that I am speaking for today agree with the Joint Board's recommendation for the duration of the interim cap to be one year from the date of any Joint Board recommended decision on comprehensive high-cost universal service reform. The Telecommunications Act of 1996 requires the FCC to act on a Joint Board recommendation within one year after receiving it. Therefore, by one year from the date of a Joint Board recommendation on comprehensive universal service reform, the FCC will adopt an Order that provides a long term approach to addressing the excessive and unjustified growth in CETC funding.

We are also in agreement with the Joint Board's recommendation to impose a cap on CETC support for each state. This approach would encourage state commissions to be very judicious in their decisions regarding applications for eligible telecommunications carrier designation, because the designation of any additional eligible telecommunications carriers would not draw additional federal dollars into the state; it would simply require a fixed amount of funding to be reallocated among all of the CETCs in the state. At the same time, a state-based cap would still allow state commissions the flexibility to designate additional eligible telecommunications carriers if they believe that it will serve the public interest.

In the long term, Congress and the FCC should expand the base of contributors to the USF. And, as previously stated, the identical support rule should be eliminated and CETC support should be based on their own costs.

As I stated previously, Congress should urge the FCC to quickly adopt the Joint Board's recommendation. The recommended cap will not harm rural consumers and will not take support away from rural America. As I have pointed out, ILECs are not responsible for escalating the size of the program. Consumers are paying more so that a narrow class of carriers can receive support that is not based on their costs. The Joint Board's recommendation is a vital step toward fixing this problem.

In conclusion, Congress should advocate for the FCC's immediate adoption of the Joint Board's recommendation to impose an interim cap on high-cost support provided to CETCs, without modification. The recommended cap would effectively and fairly stem the rapid growth in support to CETCs – caused in large part by the identical support rule – while Congress and the FCC consider comprehensive reforms to the High-Cost program that will address the issue for the long term. The Joint Board's recommendation is an interim step to protect the USF from exploding even further and would benefit all eligible telecommunications carriers, including wireline, wireless and broadband services. Once again, anyone who claims to be a supporter of the Universal Service Fund and its goals should be a strong advocate for this recommendation. Thank you.

Rural High-Cost Support Program	**3rd Quarter 2005 Support**	**3rd Quarter 2006 Support**	**3rd Quarter 2007 Support**	**% Change 3Q 2005 – 3Q 2007**	**Dollar Change 3Q 2005 - 3Q 2007**	**% of Total Two-Year Support Increase**
($Millions)						
Rural ILEC	$630.9	$623.8	$634.0	0.49%	$3.1	3.4%
CETC	$136.2	$165.8	$225.1	65.3%	$88.9	96.6%
Total	**$767.1**	**$789.6**	**$859.1**	**12.0%**	**$92.0**	**100.0%**

Source: Universal Service Administrative Company